

Message Text

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ACTION AF-10

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FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 1639

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

UNCLAS SECTION 1 OF 2 PRETORIA 3792

E.O. 11652: N/A

TAGS: ECON, EFIN, SF

SUBJECT: HIGHLIGHTS OF RESERVE BANK QUARTERLY REPORT

1. SUMMARY: QUARTERLY BULLETIN OF RESERVE BANK REPORTS THAT, WHILE REAL RATE OF GROWTH IN FIRST QUARTER OF 1978 ONLY EQUALLED THAT OF FOURTH QUARTER OF 1977, REAL ECONOMIC ACTIVITY ROSE SIGNIFICANTLY IN INDUSTRY AND COMMERCE, REVERSING DECLINES EXPERIENCED DURING 1976 AND 1977. THE REAL VALUE ADDED BY AGRICULTURE FEEL, WHILE THE DECLINE IN MINING WAS OFFSET BY A 2 PERCENT INCREASE IN GOLD MINE PRODUCTION. REAL GROSS DOMESTIC EXPENDITURE WAS STILL ABOUT 2 PERCENT LOWER THAN IN THE CORRESPONDING QUARTER OF 1977.

2. CURRENT ACCOUNT SURPLUS CLIMBED TO A RECORD R503 MILLION COMPARED TO R205 MILLION IN THE LAST QUARTER OF 1977, ALTHOUGH AT A SEASONALLY ADJUSTED ANNUAL RATE, SURPLUS DECLINED TO R1,193 MILLION IN THE FIRST QUARTER OF 1978 DOWN FROM R2,192 MILLION IN THE PREVIOUS QUARTER. REPAYMENT OF FOREIGN LOANS AND UNRECORDED TRANSCATIONS LED TO A SUBSTANTIAL NET OUTFLOW OF CAPITAL IN FIRST QUARTER AMOUNTING TO R531 MILLIO N. END SUMMARY.

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3. NATIONAL ACCOUNTS AND TRENDS: JUNE QUARTERLY BULLETIN OF RESERVE BANK REPORTS A MODERATE EXPANSION OF ECONOMIC ACTIVITY IN NON-PRIMARY SECTORS OF THE ECONOMY DURING FIRST QUARTER OF 1978 COMPARED WITH LAST QUARTER OF 1977, NOTABLY 2.5 PERCENT AND ONE PERCENT INCREASES IN THE VOLUME OF MANUFACTURING PRODUCTION AND WHOLESALE SALES, RESPECTIVELY. IN CONTRAST TO THE INCREASE IN

REAL ECONOMIC ACTIVITY IN INDUSTRY AND COMMERCE, THE TWO SECTORS HERETOFORE STRONG, AGRICULTURE AND MINING, DECLINED IN THE FIRST QUARTER. REAL AGGREGATE DOMESTIC DEMAND, ESPECIALLY DURABLES, ROSE IN THE FIRST QUARTER BUT, OWING TO HIGH INVENTORIES, REAL GROSS DOMESTIC EXPENDITURE WAS 2 PERCENT LOWER THAN IN THE SAME QUARTER OF 1977.

4. BALANCE OF PAYMENTS- CURRENT ACCOUNT: THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS SHOWED ITS FOURTH CONSECUTIVE QUARTERLY SURPLUS. WHILE THE SURPLUS OF R503 MILLION WAS TWICE THAT OF THE SURPLUS RECORDED FOR THE FOURTH QUARTER OF 1977, AT A SEASONALLY ADJUSTED ANNUAL RATE THE SURPLUS DECLINED TO R1,193 MILLION FROM R2,192 MILLION IN THE LAST QUARTER OF 1977. AT SEASONALLY ADJUSTED ANNUAL RATE, MERCHANDISE EXPORTS DECLINED TO R6,319 MILLION, THE FALL IN DIAMOND EXPORTS BEING ESPECIALLY MARKED. MERCHANDISE IMPORTS, AT A SEASONALLY ADJUSTED ANNUAL RATE, ROSE MODERATELY TO R7,037 MILLION. THE INCREASE IN THE VALUE OF MERCHANDISE IMPORTS, WHICH THE RESERVE BANK DEFINES IN THE BROADEST SENSE, OCCURRED IN MOST CATEGORIES OF IMPORTED GOODS, BUT LARGE INCREASES WERE RECORDED IN IMPORTS OF MACHINERY AND ELECTRICAL EQUIPMENT, CHEMICAL PRODUCTS, TEXTILES AND "MINERALS". IN CONTRAST, IMPORTS OF TRANSPORT EQUIPMENT DECLINED SHARPLY. THE INCREASED PAYMENTS FOR SERVICES AND UNRECORDED TRANSFERS TO THE REST OF THE WORLD AGAIN INCREASED SHARPLY REACHING A SEASONALLY ADJUSTED RATE OF R1,465 MILLION.

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5. CAPITAL ACCOUNT: A SUBSTANTIAL NET OUTFLOW OF CAPITAL, BOTH SHORT AND LONG TERM, AMOUNTING TO R531 MILLION WAS RECORDED. THE NET OUTFLOW

OF LONG-TERM CAPITAL CAN BE PARTIALLY ACCOUNTED FOR BY THE CENTRAL GOVERNMENT'S REPAYMENTS OF FOREIGN LOANS COUPLED WITH THE EXISTENCE OF SURPLUS PRODUCTION CAPACITY AND THE LOW LEVEL OF DOMESTIC INVESTMENT-- BOTH OF WHICH OFFERED LITTLE INDUCEMENT TO AN INFLOW OF FOREIGN CAPITAL. THERE WAS A NET OUTFLOW OF R111 MILLION IN LONG-TERM

CAPITAL, WITH THE LOSSES OF R138 MILLION FROM THE PRIVATE SECTOR AND R92 MILLION FROM THE CENTRAL GOVERNMENT AND BANKING SECTOR BEING PARTIALLY OFFSET BY AN INFLOW OF R119 MILLION TO PUBLIC CORPORATION AND LOCAL AUTHORITIES. IN THE NET OUTFLOW OF SHORT-TERM CAPITAL, CAPITAL RELATING TO RESERVES AMOUNTED TO ONLY R78 MILLION, HOWEVER, CAPITAL NOT RELATED TO RESERVES AMOUNTED TO R342 MILLION AND WAS RESPONSIBLE FOR THE LARGEST PART OF THE OVERALL NET CAPITAL FLOW. RESERVE BANK ATTRIBUTES THIS OUTFLOW TO: (1) POLITICAL UNCERTAINTIES IN SOUTHER AFRICA; AND (2) A DECLINE IN FINANCING ABROAD OF FOREIGN TRADE TRANSACTIONS.

6. RESERVES: AS A RESULT OF THE REVALUATION OF THE GOLD RESERVES IN UNCLASSIFIED

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ACCORDANCE WITH THE ANNOUNCEMENT MADE BY THE MINISTER OF FINANCE ON APRIL 10, 1978, THE VALUE OF THE GROSS GOLD AND OTHER FOREIGN RESERVES OF THE RESERVE BANK INCREASED BY R1,025 MILLION TO A LEVEL OF R1,659 MILLION AT THE END OF THE MONTH. NET RESERVES, IN MOST RESPECTS A MORE SIGNIFICANT FIGURE, INCREASED BY R50 MILLION AS THE GOVERNMENT MADE NET REPAYMENTS OF PREVIOUS SHORT-TERM BORROWINGS.

7. LABOR; ALTHOUGH FOR 1977 AS A WHOLE, EMPLOYMENT LEVELS WERE 0.1 PERCENT UNDER 1976, A SLIGHT IMPROVEMENT WAS NOTED IN THE FINAL QUARTER. THIS WAS CONFIRMED BY A REDUCTION IN REGISTERED UNEMPLOYED AMONG WHITES, COLOREDS AND ASIANS IN APRIL 1978 TO 30,299 FROM 34,641 IN DECEMBER 1977 AN ESTIMATED 1.5 PERCENT OF THE CORRESPONDING LABOR FORCE. NO NEW FIGURES ON BLACK UNEMPLOYMENT ARE AVAILABLE SINCE THE SURVEY OF OCTOBER 1977 WHICH GAVE A JOBLESS LEVEL OF 12.4 PERCENT.

8. PRICES: RATES OF INCREASE IN WHOLESALE AND CONSUMER PRICES WERE UP AGAIN IN THE FIRST QUARTER OF 1978, AFTER EASING OVER THE COURSE OF 1977. ON A SEASONALLY ADJUSTED ANNUAL RATE, CONSUMER PRICES WERE UP ONLY marginally FROM 9.8 PERCENT TO 10.2 PERCENT IN THE QUARTER, OWING TO INCREASES IN GOVERNMENT- CONTROLLED FOOD PRICES, PARTICULARLY

OF SUGAR, GRAIN AND GRAIN PRODUCTS. WHOLESALE PRICES ACCELERATED AT A SEASONAL ANNUAL RATE FROM 6.5 PERCENT IN THE FOURTH QUARTER OF 1977 TO 13.8 PERCENT IN THE FIRST QUARTER OF 1978, ATTRIBUTED TO HIGHER PRICES OF COAL AND LOCALLY MANUFACTURED BASIC METALS, METAL PRODUCTS AND FOOD, ELECTRICITY AND IMPORTED GOODS.

9. MONEY SUPPLY AND GOVERNMENT FINANCES: THE ANNUAL RATE OF INCREASE OF THE SUPPLY OF MONEY AND NEAR MONEY, WHICH HAD DECLINED SHARPLY FROM

23 PERCENT DURING THE SECOND QUARTER OF 1977 TO ONLY 2 PERCENT DURING
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THE FOURTH QUARTER, REMAINED AT 2 PERCENT DURING THE FIST QUARTER OF 1978. THE SMALL INCREASE IN THE MONEY AND NEAR-MONEY SUPPLY DURING THE FIRST QUARTER OF 1978, CAUSED BY INCREASES IN THE NET GOLD AND OTHER FOREIGN RESERVES OF THE MONETARY BANKING SECTOR AND THIS SECTORS'

CLAIMS ON THE PRIVATE SECTOR, WERE ALMOST COMPLETELY OFFSET BY A DECLINE IN THE NET CLAIMS OF THE MONETARY BANKING SECTOR ON THE GOVERNMENT SECTOR AS WELL AS A FURTHER SHARP INCREASE IN LONG-TERM DEPOSITS OF THE PRIVATE SECTOR WITH MONETARY BANKING INSTITUTIONS.

10. COMMENT: THERE APPEARS TO BE A MODEST ECONOMIC UPSWING UNDERWAY WITH THE FIRST TWO CONSECUTIVE QUARTERS OF REAL GROWTH SINCE EARLY 1976 BEING POSTED. THERE WAS ALSO A RECORD R503 MILLION QUARTERLY SURPLUS IN THE CURRENT ACCOUNT AND INCREASED AGGREGATE DEMAND WHICH SHOULD SOON BEGIN TO AFFECT DOMESTIC EXPENDITURE. IT NOW SEEMS POSSIBLE

THAT THE YEAR WILL END WITH A 2.5-3 PERCENT INCREASE IN GDP AND A CYCLICAL ECONOMIC UPSWING. HOWEVER, THE REVIVAL MUST STILL BE VIEWED WITH CAUTION. THE INCREASE IN CONSUMER SPENDING REMAINS AN ELEMENT OF

UNCERTAIN STRENGTH AND DURATION. ALSO, THE CAPITAL ACCOUNT CONTINUES TO

BE A PROBLEM FOR THERE HAS BEEN A SUBSTANTIAL OUTFLOW IN BOTH SHORT-TERM AND LONG-TERM CAPITAL, WHICH THE RESERVE BANK FRANKLY CONCEDED AROSE FROM THE POLITICAL SITUATION. A KEY ELEMENT IN THE CAPITAL ACCOUNT HAS BEEN THE FALLING DOMESTIC INTEREST RATES COMPARED TO RISING ONES OVERSEAS WHICH CAUSE MORE RELIANCE ON DOMESTIC FUNDING. THE SAG NEEDS TO MAINTAIN A SPREAD BETWEEN DOMESTIC AND FOREIGN RATES

TO ENCOURAGE USE OF FOREIGN FINANCING BY DOMESTIC BORROWERS AND HELP OVERCOME CONTINUED WEAKNESS IN THE CAPITAL ACCOUNT. HOWEVER, THE INCREASE IN NET FOREIGN EXCHANGE RESERVES FOR THE SECOND CONSECUTIVE QUARTER DEMONSTRATES THAT OVERALL THE BALANCE OF PAYMENTS IS STILL SHOWING A FAVORABLE TREND.

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